YFC Projects Private Limited

Instrument	Amount (Rs. crore)	Rating Action
Long Term: Fund Based Limits	30.00	[ICRA] BB+(Stable)/downgraded
Long Term: Non Fund Based Limits^	120.00^	[ICRA] BB+(Stable)/ [ICRA]A4+/ downgraded

^Long Term Non Fund based limits are interchangeable with Short Term Non Fund Based limits to the extent of Rs. 20.00 crore and in case the limits are availed as short term facilities, the short term rating will be applicable. The overall utilisation by way of long term and short term non-fund based limits cannot exceed Rs. 120.00 crore

ICRA has downgraded the long term rating assigned to Rs. 30.0 crore[1] fund based and Rs. 120.0 crore non-fund based bank limits of YFC Projects Private Limited (YPPL) to [ICRA]BB+ (pronounced ICRA double B plus) from [ICRA]BBB- (pronounced ICRA triple B minus)[†]. The outlook on the long term rating is Stable. ICRA has also downgraded the short term rating assigned to the bank limits of YPPL to [ICRA]A4+ (pronounced ICRA A four plus) from [ICRA]A3 (pronounced ICRA A three). The long term non-fund based bank limits can also be availed as short term non-fund based bank limits to the extent of Rs. 20.0 crore with a short term rating of [ICRA]A4+.

The rating downgrade takes into account the weakened liquidity profile of YPPL, which is unlikely to improve in near term due to significant increase in its funding requirements, which is largely being met with shorter tenure liabilities. The increase in funding requirement is driven by the significant increase in the pending order book position of the company, which has jumped sharply to ~Rs. 1,175 crore as on December 2015 (~8x FY 2015 revenues as compared to ~Rs. 340 crore as on December 2014 which was ~3x FY 2014 revenues). The increase in funding requirement is being driven by higher working capital requirements (debtors + inventory equivalent to ~6 months of revenues), increased capital expenditure as well as increased margin requirements for funding the performance/ financial guarantees. While increased order-book will result in strong revenue growth and cash accruals; however, a large portion of these accruals are expected to be utilized towards scheduled debt repayments thereby keeping the dependence on external funding high. Moreover, the funding requirements in the current year are being met through short-term funding (like mobilization advances and creditors), thereby weakening the liquidity profile and increasing the refinancing risk. The rating continues to be constrained by YPPL's relatively modest scale of operations which limits diversification as also reflected in high order and customer concentration for the pending order book as on December 2015 with five orders from four customers accounting for ~91% of the pending order book.

The rating however continues to be supported by YPPL's steady revenue growth on account of the healthy order book and satisfactory pace of order execution. Moreover, the customer profile has remained comfortable with orders executed for large infrastructure / real estate companies such as Delhi Metro Rail Corporation (DMRC), IL&FS Transportation Networks (rated [ICRA]A/ [ICRA]A1), Ministry of Road Transport and Highways (Government of India) and Army Welfare Housing Organization (AWHO), which reflects favorably on YPPL's execution capabilities. The rating also continues to take into account the long operational track record of the company with orders executed across geographies in northern, eastern and north-eastern states.

Given the high funding requirements and large scheduled repayments over the medium term, satisfactory pace of execution of the existing orders along with improvement in the accruals, ability to control the working capital cycle, reduce the reliance on short term funding and timely secure incremental funding will be critical to achieve satisfactory liquidity and will thus be key rating sensitivities.

Recent Results

In 9M FY 2016, as per the provisional results, YPPL reported an operating income of Rs. 123.35 crore and operating profit margin of 12.0% as compared to operating income of Rs. 100.56 crore in 9M FY 2015.

[1] *100 lakh = 1 crore = 10 million*

[†] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

Company Profile
YPPL was incorporated in April 1986 and is a civil contractor engaged in building and road construction. YPPL started with undertaking excavation and earthwork projects for national and state highways and has over the years, diversified into the present line of business.

YPPL was earlier also engaged in manufacturing of Ready Mix Concrete (RMC); however w.e.f. October 1, 2012, the business was transferred to its wholly owned subsidiary YFC Concrete Pvt. Ltd. (YCPL). In addition to YCPL, another wholly owned subsidiary, YFC Minerals Pvt. Ltd. (YMPL) is engaged in stone crushing and making of aggregates which is supplied mainly to group companies. The stone crushing business was earlier carried out in another group company and from FY 2013, the operations was transferred to YMPL. The two wholly owned subsidiaries have been merged with YPPL in FY 2016; however the external RMC sales has been discontinued and the RMC capacity shall be used to meet the in-house requirement for the construction projects.

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